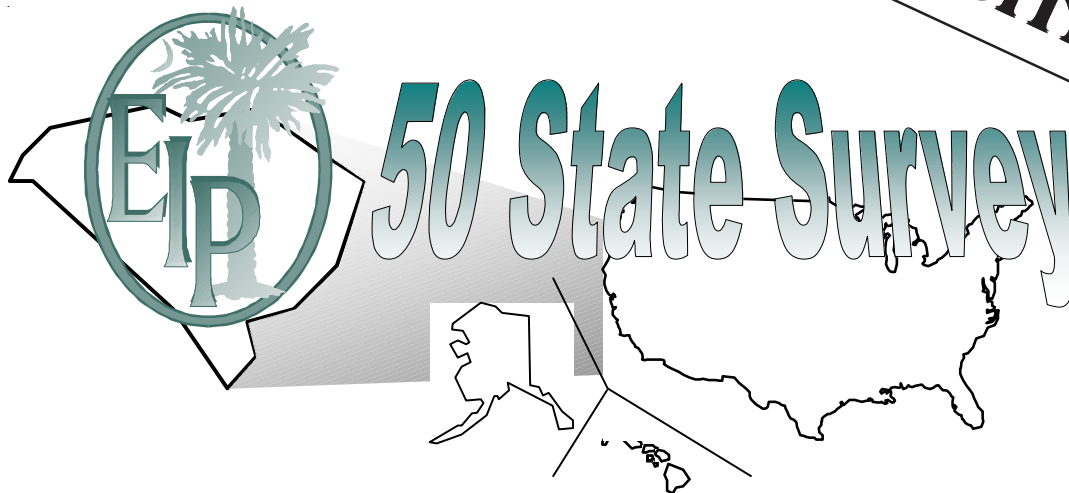


2004 EDITION



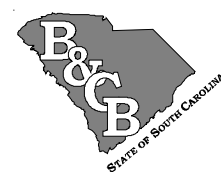
Employee Insurance Program

- JANUARY 2004 RATES -

*A Composite Analysis of South Carolina's
State Health Plan Standard Option Rates
Compared to State Plans Across The Nation*

From the Publishers of:

TRENDS



South Carolina Budget & Control Board
Division of Insurance & Grants Services



Health insurance is one of the key benefits an employer can offer a prospective employee. Along with salary, location, schools, and other variables, health insurance coverage weighs heavily in the minds of many when contemplating a job opportunity. It is also a factor in deciding when to leave a job.

Employers reap the rewards of providing good health benefits. These benefits, when utilized properly, improve the overall health of the employer's workforce, which leads to improvements in the efficiency of their operations. Another bonus to employers who offer attractive health benefits is a reduction in the unwanted turnover of top workers.

Full-time active employees in the majority of states have access to multiple health insurance options. Many states offer a variety of plan types such as HMOs, PPOs, indemnity health plans, etc. to their active employees. As with plan types, premiums can vary substantially from plan to plan and state to state. While a few states pay the total monthly premium for each employee's tier of coverage, most states allocate specified dollar amounts to contribute to each employee's monthly health premiums.

Regardless of how state employees' health premiums are paid, rising health costs are driving premiums higher in South Carolina and across the nation. The South Carolina Budget and Control Board's Employee Insurance Program conducted its annual survey to assess the impact of cost trends on plan premiums

and to compare South Carolina's State Health Plan Standard Option to other states.

To conduct the analysis, information was gathered on each state's most populated non-HMO plan and/or the plan most similar to the State Health Plan's Standard Option. The following report presents the findings of the comparative analysis of each state's premium rates in effect on January 1, 2004.

As we have done in previous years, we divided the country into 4 regions: South, Northeast, Midwest, and the West, to identify and evaluate trend data.

CONTENTS

Across The Nation ----- 3

Plan Design & Changes

South Carolina Changes ----- 4

Regional Comparison ----- 5

Composite Rate Survey

Methodology ----- 6

South Carolina Composite --- 7

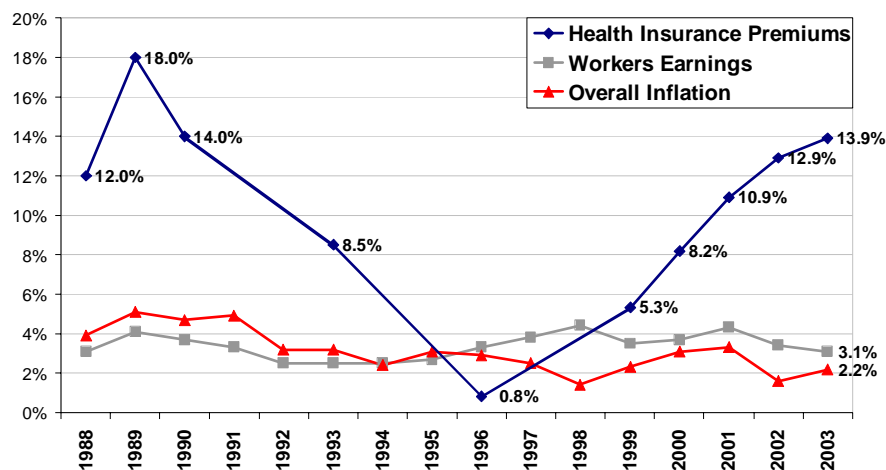
Regional Composites ----- 9

National Composites ----- 13

Acknowledgement ----- 14

ACROSS THE NATION

INCREASES IN HEALTH INSURANCE PREMIUMS COMPARED TO OTHER INDICATORS, 1988 - 2003



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003

KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four.

OUTLOOK FOR THE FUTURE

Taken from Mercer's 2003 National Survey of Employer-Sponsored Health Press Release

It would be whistling in the dark to celebrate a health benefit cost increase of 10.1% in a year in which general inflation barely cracked 2%. But after 2002's increase of nearly 15%, any sign that health benefit cost can be controlled is welcome – especially because higher increases were predicted.

Mercer's 2003 National Survey of Employer-Sponsored Health Plans reports that the average total cost of health benefits for active employees (which includes all medical and dental plans offered) rose from US \$5,646 per employee in 2002 to US \$6,215 in 2003.

The average increase expected in 2004 is 13.0%.

Last year's brutal rate hikes compelled many employers to take serious steps to cut costs – changing plan design, reducing covered services, dropping costly plans. The survey found that 30% of employers held their per-employee health benefit cost constant or even reduced it from 2002 to 2003, a feat achieved by only 22% of employers in 2002.

TOTAL HEALTH BENEFIT COST PER EMPLOYEE BY REGION

Reprinted by permission - 2004 Segal Health Plan Cost Trend Survey

While double-digit average increases in trend are expected to continue in 2004, the findings of this survey may signal a beginning of downturn on the rate of increases from the prior three- to five-year period. Nevertheless, it is worth noting that cost trend rates are still three to five times the rate of general CPI. Consequently, plan sponsors are facing serious challenges to balance the needs of their participants with their increasing fiscal pressures. Health

plan sponsors will need to make health care cost management a top priority and adopt a new round of strategies and tactics to meet these needs. For most plan sponsors, there will be no single solution. Successful management of health care costs depends on a combination of customized strategies, including vendor management, plan management and individual health management.

PLAN CHANGES IN 2004

Plan Year 2004 brought many changes to the State Health Plan (SHP). Many of these changes were due to rising health care costs and increases in claims. Others were the result of legislative mandates and the Plan's effort to enhance the excellent benefits provided. We include plan changes in our discussion since they impact plan premiums.

The following list highlights key changes to the State Health Plan for Plan Year 2004:



- The SHP monthly premium increased \$19.04 for employee only and employee/children coverage, and \$38.08 for employee/spouse and full family coverage.



- Annual deductibles increased to \$350 for single coverage and \$700 for family coverage.
- The out of pocket maximums increased to \$2,000 for single coverage and \$4,000 for family coverage.
- The per-occurrence deductibles increased to \$75 for outpatient hospital services and \$125 for emergency room visits.



- A \$10 per-visit deductible for all physician office visits was added.
- A 20% out-of-network differential was added. Insured pay 20% more in coinsurance if they choose to go to a health care provider that is not a member of an SHP network.



- Prescription drug copayments increased to \$10 for generic, \$25 for preferred brand name, and \$40 for non-preferred brand name.



- The prescription drug copayment maximum increased to \$2,500.
- The SHP now participates in Medco Health's Select Pharmacy network.

PLAN DESIGN COMPARISON

New for our 2004 50 State Survey is a comparison of South Carolina's plan design to other states in the Southern region. This comparative analysis is important when examining the benefits offered by these regional plans.

Just as composite rates varied, so did plan designs. In comparison to the 13 other states in the South, South Carolina's plan design remained competitive. Only 3 states had a higher individual deductible than the State Health Plan (SHP), 9 states had a lower individual deductible amount. In contrast, 7 states had higher family deductible than South Carolina with 6 states having a lower family deductible.

Southern states were evenly split in terms of their coinsurance percentages. Including South Carolina, health plans in 8

states pay 80% of allowable charges with the insureds responsible for 20%. The health plans in the other 6 regional states pay a higher coinsurance percentage than South Carolina.

States handled their prescription drug benefits in a variety of ways. Subscribers in 8 states paid \$10 for generic drugs while subscribers in 3 states paid more for generics. In terms of brand or preferred brand drugs, 12 states paid the same or less for brand name drugs, whereas subscribers in 2 states paid more. Of the 14 regional states, only 3 states offered employees a better drug copay max than South Carolina.

In all, the SHP's plan design was comparable to those provided by other states in the South region in 2004.

2004 SOUTH REGION PLAN DESIGN COMPARISON

	SC (Eff. 1/04)	Regional State Comparisons		
		Lower Benefit	Same Benefit	Higher Benefit
Deductible - Individual	\$350	3 states	1 state	9 states
Deductible - Family	\$700	7 states	only S.C.	6 states
Coinsurance	80%/20%	none	7 states	6 states
Coinsurance Max - Individual	\$2,000	3 states	2 states	8 states
Coinsurance Max - Family	\$4,000	7 states	1 state	5 states
Prescription Drug Copays				
Generic	\$10	3 states	7 states	3 states
Brand	\$25	2 states	5 states	6 states
Non-Preferred Brand	\$40	4 states	4 states	5 states
Prescription Drug Copay Max	\$2,500	8 states	2 states	3 states
Prescription Drug Deductible	\$0	3 states	10 states	none
Hospital Inpatient Deductible	\$0	8 states	5 states	none
Emergency Room Deductible	\$125	1 state	only S.C.	12 states
Hospital Outpatient Deductible	\$75	3 states	only S.C.	10 states
Lifetime Maximum	\$1 million	none	6 states	7 states

SURVEY METHODOLOGY

The tier structure of health plans varies from state to state. The South Carolina State Health Plan (SHP) operates under a “four-tier” structure, which means that contributions vary according to four different levels of coverage: Employee Only (EO), Employee/Spouse (E/S), Employee/Children (E/C), and Full Family (FF). Many states use two-, three-, or four-tier premium structures. A two-tier structure is defined primarily as one entailing Employee Only and Employee/Dependent coverage levels. A three-tier structure entails Employee Only, Employee/Dependent, and Full Family coverage.

The tier structure has a significant impact on contribution levels. In the case of a two-tier structure, plans typically spread the cost of dependent coverage across all employees with dependents, resulting in employees covering only a spouse or dependents paying higher rates than equivalently priced plans with a four-tier structure.

Composite Change

In order to conduct our comparative analysis of plan rates, we calculated composite employer, employee, and total contribution rates for each state. To do so, we took the percentage of South Carolina Employee Insurance Program (EIP) health subscribers in each coverage level and applied those percentages to each state’s rate for that coverage level.

In past years, our coverage level percentages were based solely on active subscribers covered by EIP. For 2004, we decided to utilize total health subscribers insured through our office and the current year’s coverage levels when comparing current and previous years. This explains the

difference in composite rates from those published in previous years.

The percentages for each coverage level, as of January 2004, are:

Employee Only (EO) – 56.438%
Employee / Spouse (E/S) – 15.439%
Employee / Children (E/C) – 15.287%
Full Family (FF) – 12.837%

In cases where states do not utilize a four-tier structure, the rate in which an employee would pay for the equivalent coverage under the four-tier structure was utilized in calculating the composite rates.

2004 SURVEY SAMPLE

South Carolina Employee Insurance Program Survey of State Employee Health Insurance Programs



CONTACT INFORMATION

Agency/Organization: _____
Address: _____
City: _____ State: _____ Zip: _____
Contact Name/ Title: _____
Phone: _____
Department: _____

PLAN STRUCTURE & RATE INFORMATION

- What type of structure does your state use to categorize active employee subscribers into different premium groups (tiers)? (2-tier, 3-tier, or 4-tier)
For example: (subscriber only, subscriber/spouse, subscriber/child(ren), full family) = 4-tier
- What will your indemnity plan’s rates be as of January 1, 2004 for each of these different tier groups? If you do not have an indemnity plan, please use the plan with the most active subscribers enrolled and indicate the plan’s type below (i.e. PPO, POS, HMO).
- These rates are in effect from _____ to _____.

Tier (For example, subscriber only, full family, etc.)	Employee Contribution	Employer Contribution	Total Monthly

Thank you for participating in this survey. Please fax the completed survey to:
Patrick A. Harvin, Program Coordinator
EIP - Research & Statistics Unit
FAX: (803) 737-0557
PHONE: (803) 734-3577

If possible, please mail a copy of this plan’s benefits guide to:
Patrick A. Harvin, S.C. Employee Insurance Program, 1201 Main Street-Suite 300, Columbia SC 29201

SOUTH CAROLINA COMPOSITE

While many adjustments occurred for the 2004 plan year, South Carolina's State Health Plan (SHP) remained highly competitive to state health plans in other states. Premium growth in the SHP was not anomalous when compared to other state health plans across the nation.

In addition to the plan design changes effective January 1, 2004, the SHP realized growth in the employee share of health premiums, which increased \$19.04 for *employee only* and *employee/children* coverage, and \$38.08 for *employee/spouse* and *full family* coverage groups.

Total Composite Rate

The total composite rate is the sum of the employer and employee individual rates. In 2004, the SHP's total composite rate totaled \$401.65, up \$24.43 from 2003. Despite the 6.5% increase in the total composite rate, South Carolina's total composite growth trend remained lower than both the national composite (up 12.7%), and the South region's composite (up 8.1%).

South Carolina's total composite, in light of others, made up 73.4% of the national total composite, whereas 46 states had a higher total composite.

The state's regional total composite ranking places the SHP with the second lowest total composite in the region, or 84.4% of the regional average. Of the 14 regional states,

2004 SOUTH CAROLINA STATE HEALTH PLAN PREMIUMS

	<u>Employee (Standard)</u>	<u>Employer</u>	<u>Total Rate</u>
Employee	\$ 69.50	\$206.70	\$276.20
Employee/Spouse	\$189.58	\$404.12	\$593.70
Employee/Child(ren)	\$106.52	\$312.60	\$419.12
Full Family	\$234.68	\$466.72	\$701.40
Composite Rate	\$114.90	\$ 286.75	\$401.65

12 had higher total composite premiums for 2004.

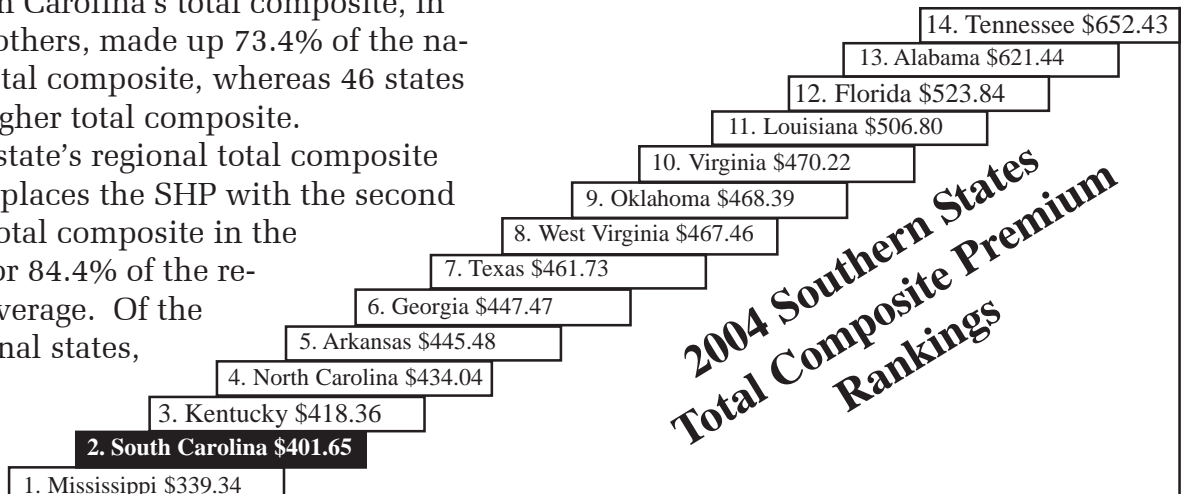
During the past five years, South Carolina's total composite has grown at an average annual rate of 10.5%.

Employer Composite Rate

South Carolina's employer composite rate remained steady in 2004 at \$286.75. While health insurance premiums rose, the increases were applied to the employee share of premiums.

Regional and national employer composites showed a different trend from

See SOUTH CAROLINA
on Page 8



SOUTH CAROLINA COMPOSITE

South Carolina

Continued from Page 7

South Carolina. Double-digit growth occurred in both the regional and national employer composites. The South saw its employer composite rise 10.8% while the national employer composite climbed a higher 14.2%.

South Carolina's employer composite remained lower than both the regional and national composites. The SHP's employer composite was only 62.3% of the national employer composite while being 76.7% of the South's employer composite.

Nationally, 44 states had a higher employer composite than South Carolina. On the regional level, 10 of the 14 Southern states posted higher employer composites than South Carolina in 2004.

Employee Composite Rate

South Carolina SHP subscribers saw their premiums increase in 2004. The SHP's employee composite grew 27.0% to \$114.90 in 2004, up from \$90.48 in 2003.

In comparative terms, South Carolina's employee

How SOUTH CAROLINA COMPARES IN 2004

SHP Composite Total Rate

46 of 50 States Have Higher Rate
12 of 14 Regional States Have Higher Rate

SHP Composite Employer Contribution Rate

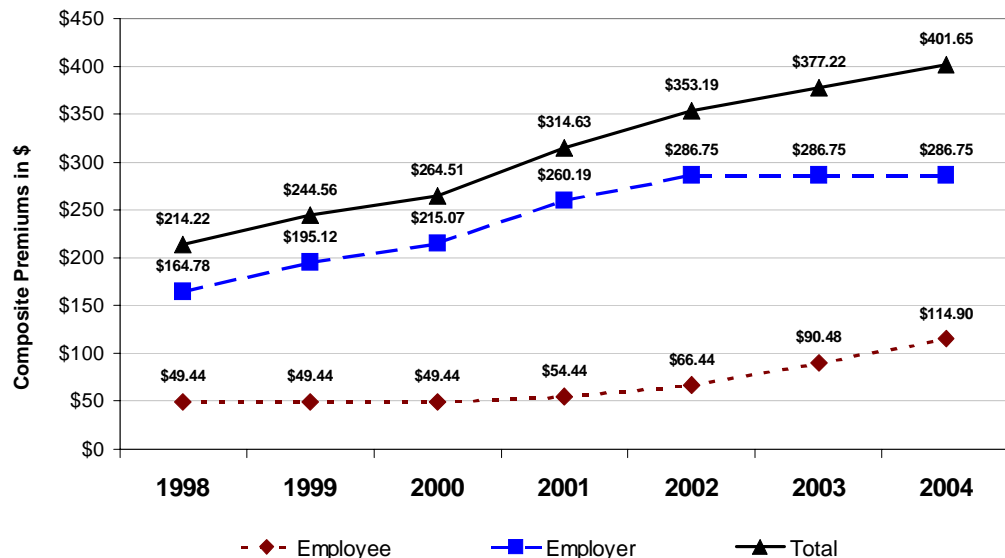
44 of 50 States Have Higher Rate
10 of 14 Regional States Have Higher Rate

SHP Composite Employee Contribution Rate

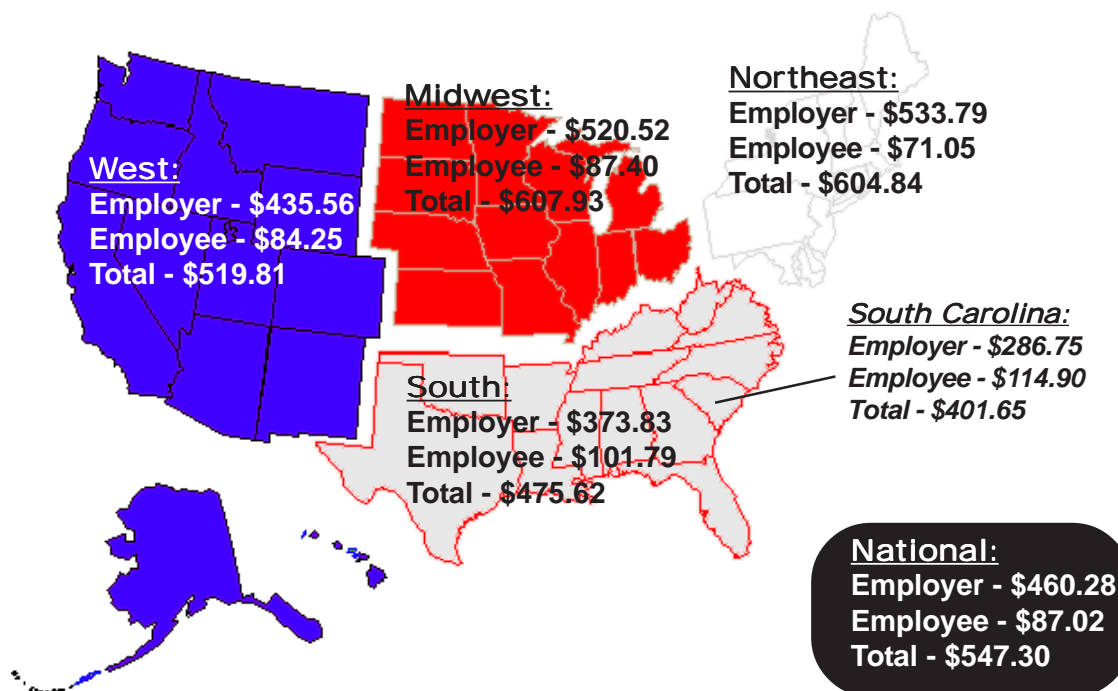
14 of 50 States Have Higher Rate
5 of 14 Regional States Have Higher Rate

composite exceeded both the regional and national employee composites. In the South, 5 of the 14 regional states had a higher employee composite rate. Nationally, 14 states posted higher employee composite rates than South Carolina.

SOUTH CAROLINA PREMIUM COMPOSITE RATES: 1998 - 2004



REGIONAL COMPOSITES



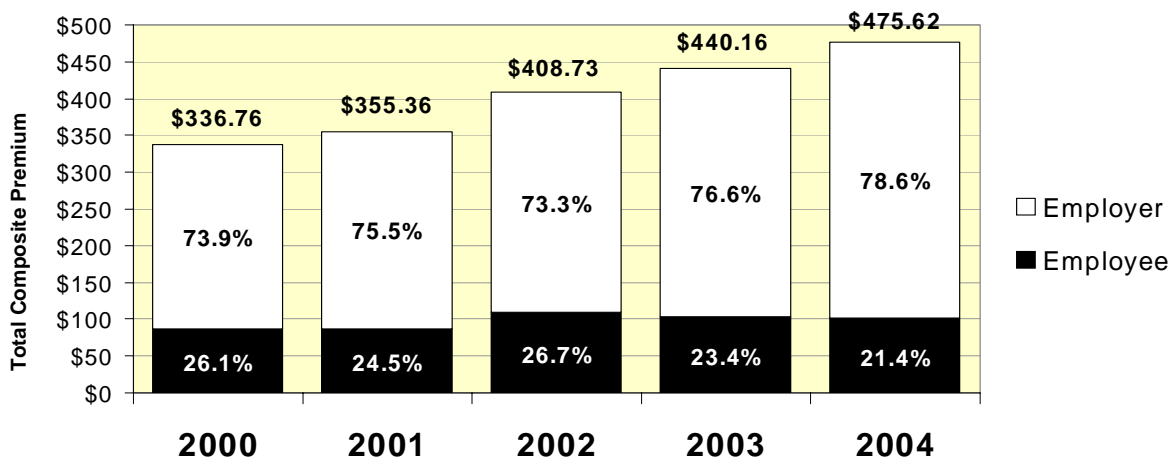
State government health plans across the nation differ in many ways yet share many similarities. Around the country, state governments provide for the health care needs of both active and retired subscribers, along with their dependents.

Regional Total Composite

On the regional level, total composite rates ranged from the South's low of \$475.62 to the Midwest's high of \$607.93.

See **REGIONAL**
on Page 10

REGIONAL EMPLOYEE/EMPLOYER SHARE OF TOTAL COMPOSITE: 2000 - 2004



REGIONAL COMPOSITES

Regional

Continued from Page 9

The Northeast's total composite of \$604.84 ranked second while the West's \$519.81 ranked third.

In terms of growth rates, the West's total composite had the highest growth rate from 2003 to 2004, up 18.6%. The Midwest's total composite growth ranked second at 14.5%, followed by the Northeast's 10.2% growth and the South's 8.1% growth rate.

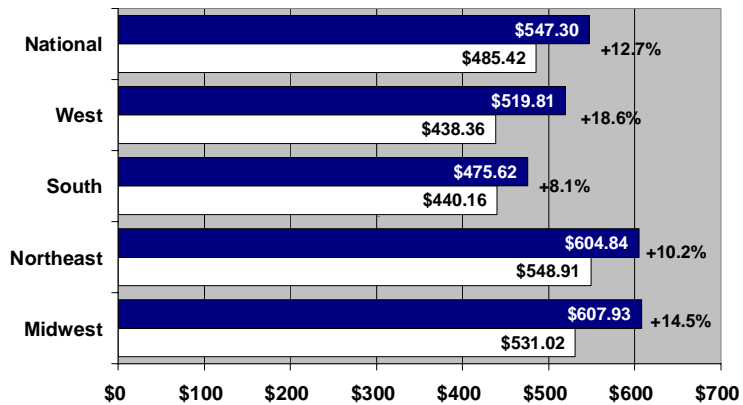
When looking over the past 5 years, total composite rates have been higher in the Northeast and Midwest regions of the country. In 4 of the past 5 years, the Northeast region has posted the highest total composite rates. The South has had the lowest total composite rate in 3 of the past 5 years.

The 5-year regional total composite annual growth trend rankings are topped by the Midwest's 11.3% trend. The West was a percentage point behind, averaging 10.3%, followed by the Northeast's 9.0%. The South's total composite annual growth average has been the lowest of the regional trends, at 8.5%.

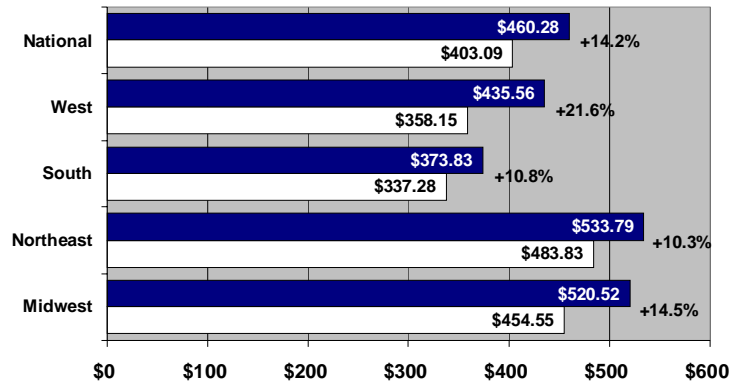
2004 & 2003 REGIONAL COMPOSITE AVERAGES

2004 Rates 2003 Rates

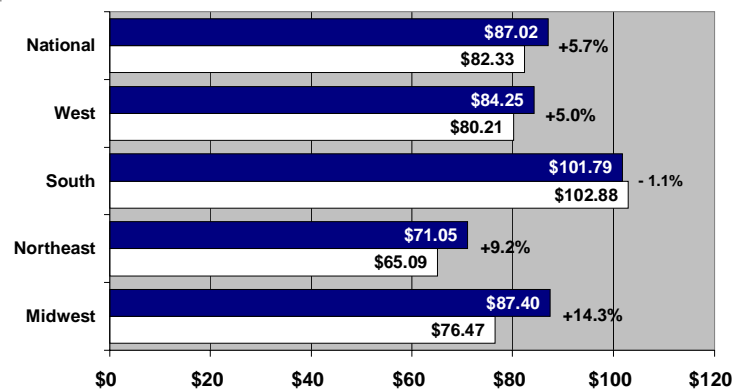
Total Composite Rates



Employer Composite Rates



Employee Composite Rates

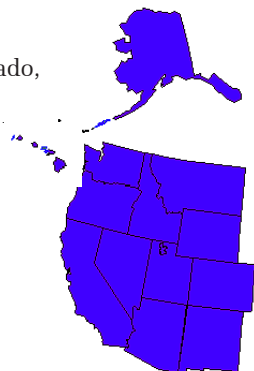


REGIONAL COMPOSITES

WEST

13 States:

Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming



West:

Employer - \$435.56
Employee - \$84.25
Total - \$519.81

The West's 13-state regional total composite premium ranked second among the 4 regions of the nation. With a total composite premium of \$519.81 in 2004, the West's total composite climbed 18.6%, the largest regional total composite growth rate.

The 2004 growth rate pushed the West's 5-year total composite growth trend upward to 10.3% annually. Prior to 2004, the largest growth observed in the West's total composite was a 14.3% increase in 2000.

The main factor in the West's total composite growth is the 21.6% hike in the West's employer composite. Employers bore the majority of premium growth in the West region with an employer composite of \$435.56, up from \$358.15 in 2003. The region's employer composite has grown an average of 11.0% annually for the past 5 years.

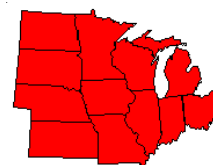
Employees in the West had the second lowest regional employee composite in the nation at \$84.25. Their regional employee composite grew 5.0%. In the West, employee composite growth in 2004 remained under the region's 5-year trend of 7.5% annually.

In all, employers continued to absorb the predominant share of premium growth. In 2000, employers paid 84.2% of the total composite premium. That percentage varied little from the 85.6% share of total composite premiums paid by employers in 2004.

MID-WEST

12 States:

Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin



Midwest:

Employer - \$520.52
Employee - \$87.40
Total - \$607.93

The Midwest's 12-state region had the highest regional total composite premium in the nation at \$607.93, up 14.5% from 2003. The Midwest's total composite growth continued a trend established over 4 of the last 5 years, in which the Midwest's total composite has seen double-digit growth rates. The region's 5-year annual growth trend of 11.3% was the highest in the nation.

Employers in the Midwest had the second-highest regional employer composite premium in the nation. The Midwest's employer composite rate of \$520.52 was a 14.5% increase from 2003. The 5-year trend for the Midwest's employers was a 12.7% average annual increase in rates, on average.

The Midwest's employee composite for 2004 was \$87.40, up 14.3% from 2003. The 5-year trend for employees reflects an average 5.4% growth rate annually.

When examining cost sharing in the Midwest, employers paid 85.6% of the total composite rate while employees paid 14.4% in 2004. The ratio was identical in the previous year. This points to Midwest employers and employees paying the same share of the higher 2004 total composites.

REGIONAL COMPOSITES

NORTHEAST

11 States:

Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont



Northeast:

Employer -	\$533.79
Employee -	\$71.05
Total -	\$604.84

The Northeast, composed of 11 states, continued to post one of the highest annual total composite rates in 2004 at \$604.84, a 10.2% increase from 2003. The 2004 growth rate exceeded the national total composite growth rate of 12.7%, along with the region's 5-year annual growth trend of 9.0%. Since 1999, the Northeast's total composite has seen growth rates around 5.9% every other year followed by double-digit growth rates in alternating years.

Employers in the Northeast had the highest regional composite at \$533.79 in 2004, almost 16.0% higher than the national employer composite. Northeast employers paid more of the total composite than any other region, 88.1% in 2004.

Throughout the past several years, the Northeast has consistently had the highest regional employer composites. The 5-year trend indicates an average annual growth rate of 9.6%.

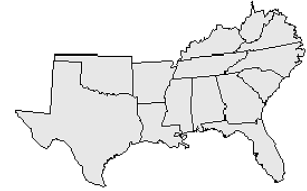
In contrast to the Northeast's employer composite, the Northeast's employee composite was the lowest in the nation at \$71.05, a 9.2% climb from 2003. The employee's 5-year growth trend was 5.9% annually.

The Northeast continues to have one of the highest total composite rates in the nation as employers bear a larger share.

SOUTH

14 States:

Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia



South:

Employer -	\$373.83
Employee -	\$101.79
Total -	\$475.62

The South is composed of 14 states, including the State of South Carolina.

This region boasts the lowest regional total composite premium in the nation. The South's 2004 total composite rate was \$475.62, an 8.1% increase from 2003. Notably, the South's 8.1% increase was the lowest total composite growth trend observed nationally. Over the past 5 years, the South's total composite has grown an average of 8.5% annually.

While the South's total composite growth trend was lower than that of other regions, the employer composite climbed 10.8% in 2004 to \$373.83. In 2004, employers paid most of the region's increase in total composite rate. Employers realized a 5-year growth trend of 9.7% annually.

Typically, employers in the South pay a lower portion of the region's total composite than in other regions. In 2004, that held true with employers contributing 78.6% toward the total composite premium compared to the national average of 84.1%.

The South's employee composite rate was relatively unchanged in 2004 at \$101.79. During the past 5 years, the South's employee composite has grown an average of 5.1% annually.

Employees in the South pay the largest employee composite in terms of dollar amount and total composite share, as has been the case for more than 5 years.

NATIONAL COMPOSITES

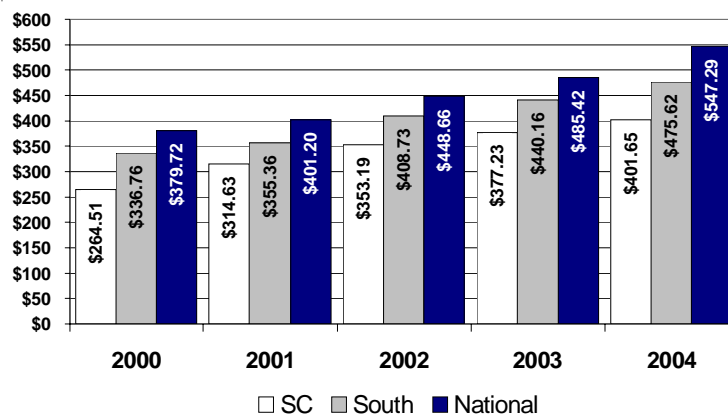
On the national level, composite rates were up again in 2004 as states reacted to cost growth. The national total composite grew 12.7% from 2003 to 2004, reaching \$547.30. This double-digit increase exceeded last year's growth rate of 8.2% and surpassed the 5-year average growth rate of 9.8% annually.

The employer composite totaled \$460.28 in 2004, a 14.2% growth from 2003. As observed on the regional level, employers continue to pick up an ever-increasing portion of the total composite rate. Employers paid 84.1% of the national total composite in 2004, compared to 83.0% in 2003. The employer composite posted a 5-year growth trend of 10.7% annually.

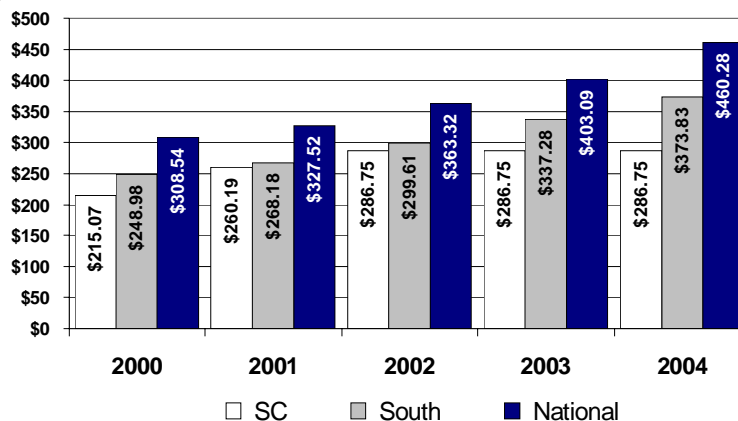
The national employee composite has not increased as much. The 2004 national employee composite was \$87.02, up 5.7% from 2003. In fact, the employee composite's 5-year growth trend was 5.6% annually, slightly under half the growth rate of the employer composite. Employees are paying a smaller share of the total composite rate today. For example, employees paid 19.0% of the total composite rate in 2002. Now, for 2004, they pay only 15.9% of the total composite rate.

Composite Rate Trends: 2000 to 2004

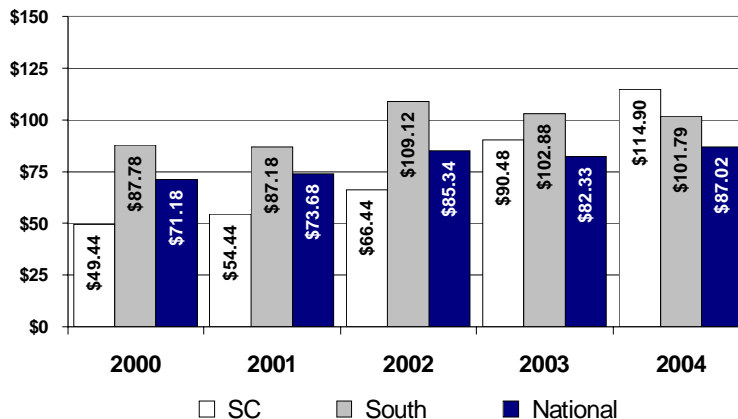
Total Composite Rates



Employer Composite Rates



Employee Composite Rates



ACKNOWLEDGEMENT

The Employee Insurance Program would like to personally thank each state's dedicated benefit program staff for their cooperation and participation in our survey. Because of your assistance, we again had 100 percent participation from the 50 states.

Again, thanks for making this survey a continuing success.



Employee Insurance Program

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